HEALTH / FINANCES / CONNECTING / GIVING / ENJOYING

# Unavailable at Any Price:

## *Why Many Californians Can't Buy Health Insurance at Any Price and The Urgent Need to Reform California's High Risk Pool*

Harbage Consulting LLC
Prepared for California AARP
**August 12, 2008**

**Van Ellet**
Senior Legislative Representative
AARP, Government Relations and Advocacy,
Health and Long-term Care Team
(916) 556-3036
vellet@aarp.org

# *Executive Summary*

**Introduction**

It is estimated that between 420,000 and 790,000 Californians are uninsurable in 2008. To help "uninsurable" California residents of all ages and incomes, California operates the Major Risk Medical Insurance Program (MRMIP), to provide insurance to individuals who have been denied individual health insurance, or are offered high priced coverage that they cannot afford. Therefore, the high risk pool is the only insurance option for many individuals—a "safety net of last resort" for the state's uninsurables.

According to this report, more than one million California residents may find themselves among the uninsurable population by 2010. No ready access to safety net coverage through MRMIP will be available, which currently has just enough funding to provide limited coverage to 7,100 subscribers, and has a wait list of approximately 750 applicants. Without a stable source of financing, MRMIP will not meet an expected and rapid increase of people in need of its critical services. Many factors, including a reduction in employer group coverage, as well as probable budget cuts, are among the factors cited in the report that will exacerbate the plight of state's uninsurable.

**Background**

Over the last ten years, MRMIP has been chronically underfunded, so enrollment has already fallen significantly—with an average annual enrollment of 27,000 in 1998 compared to the current annual enrollment cap of 7,100. This year alone, MRMIP funding limitations reduced enrollment by 10 percent. It also, offers limited benefits (e.g., an annual cap of $75,000).

Of the 34 high risk pools operated by states, only six have annual limits, with California setting the lowest cap. Because of its low funding and caps on benefits, California has yet to qualify for funding available to the state from federal sources -- resulting in a loss of millions of dollars to the program.

It should be stressed that MRMIP is a safety net for all ages and income groups. People with any previous medical condition (e.g., high blood pressure) and those with chronic medical conditions, which people often experience as they get older. In fact, most MRMIP subscribers are middle-class Californians (e.g., 31 percent are from households above 500 percent of the federal poverty level). One-third of MRMIP subscribers pay more than $8,300 annually for their insurance, with 10 percent paying more than $10,080 a year.

**Legislation**

Currently, our elected representatives are considering legislation that could be the first step to reforming MRMIP. The bill, AB 2, would introduce a new, albeit limited, funding source for the program, as well as strengthen benefits for subscribers.

**Eliminating the Benefits Cap.**

- AB 2 would eliminate the annual benefits cap and raise the lifetime cap to at least $1 million – slightly closer to what experts estimate is necessary to provide real financial security to subscribers.

**Moving Towards Affordability.**

- AB 2 sets the premium cap at 125 percent of private premiums, and provides the Board the ability to set the cap as low as 110 percent for those with incomes at or below 300 percent of the federal poverty level (FPL).

**Creating More Stable Funding.**

- AB 2 helps to broaden and stabilize funding for MRMIP. It would require insurers in the individual market to "pay or play" -- either sell standard-priced insurance plans to all applicants or pay a one dollar "per covered life" fee to subsidize MRMIP. AB 2 also would include an annual $40 million Proposition 99 appropriation in the MRMIP statute, ensuring those funds cannot be diverted from the program.

**Conclusion**

More people in the state, as well as the policymakers, need to become aware of the growing gap in the state's insurance "safety." The state must change its funding structure to more closely resemble that of other state pools, which are able to reliably serve the populations in need. A "pay or play" assessment for all insurance carriers in the individual and group market is one option. Short of comprehensive reform, assessing insurance companies or insurance policies would create a rational, dedicated stream of funding, and help spread the risk for paying to cover all Californians.

From this analysis, it is clear that with appropriate reforms, MRMIP could offer additional support to a significant number of additional uninsurable Californians – support that is desperately needed.

## *Overview*

Many Californians cannot buy health insurance at any price. Most non-elderly Californians obtain coverage through their employer, but roughly 2.4 million people purchase coverage on their own in what is known as the individual market.[i] When people apply for coverage, the insurer will rate their health status, and then decide whether to offer insurance. If the insurer decides to offer coverage, there are few rules regarding the insurer's ability to reject applicants and there are no limits on what they can charge. Roughly 20 percent of individual market applicants are told they are "high risk" and deemed "uninsurable." Many others will find the insurance premiums unaffordable. Without other coverage options, these individuals are likely to go without insurance.

To help the "uninsurable," California – like 34 other states – operates a public coverage program—or high risk pool—to provide insurance to individuals who have been denied individual health insurance or are offered only very highly priced coverage. Known as the Major Risk Medical Insurance Program (MRMIP), this high risk pool is the only insurance option for many individuals. But this safety net falls short of covering all those in need. Over the last ten years, MRMIP enrollment has fallen significantly—with an average annual enrollment of 27,000 in 1998 compared to the current annual enrollment cap of 7,100. This year alone, MRMIP funding limitations reduced enrollment by 10 percent—leaving more than 750 people on a waiting list.[ii]

Until they find themselves uninsurable, most Californians do not understand the role of MRMIP in helping to make insurance available. Yet, more and more Californian's are going to find themselves in need of MRMIP's protection. As explained in detail in this paper, there is an urgent need to reform MRMIP due to:

- **A Growing Need for MRMIP.** Based on the best available research, this analysis estimates that approximately 600,000 uninsurable people currently reside in California. Given changes in the insurance market, possible budget cuts to Medi-Cal, and pending insurance reforms, this number could grow to more than 1 million uninsurable people by 2010. The problem can affect anyone. Most MRMIP subscribers are middle-class Californians in working families.

- **Often Unaffordable, and Limited, Benefits.** Those lucky enough to be offered MRMIP enrollment will find high, often unaffordable, premiums, and limited coverage. One-third of MRMIP subscribers pay more than $8,300 annually for their insurance, with 10 percent paying more than $10,080 a year.[iii] Unlike insurance through an employer, this cost is fully paid with after-tax dollars by the individual. And the state only helps with medical costs up to $75,000 per year - the lowest limit of any high risk pool.

- **Continuing MRMIP Funding Pressure.** MRMIP is chronically underfunded, leaving the program to operate under an enrollment cap for much of its history. Rising health care costs and growing state budget pressure means that the program will continue to operate in an uncertain financial environment. Also, it should be noted that since MRMIP does not meet certain minimum federal requirements, MRMIP is forgoing millions in potential federal funding.

To help these and all individuals on the individual market, the best step is comprehensive reform legislation, such as AB X 1 1 (Núñez), which did not pass the Senate in January 2008. Until enactment and implementation of comprehensive reform, California must act immediately to help what may be a significant increase in Californians entering the individual market, especially given the growing need described above. California legislators are currently developing legislation, AB 2 (Dymally), which presents an opportunity to take the first step forward. Through AB 2, MRMIP could be improved and given more stable funding, thereby creating a foundation for future reform of the high risk pool.

## *Section One: Theory of High Risk Pools*

The most rational healthcare system is one where every individual participates. In a system of coverage for all, the risk of paying for care for those who need it is spread broadly. The risk-sharing helps make insurance affordable for everyone – including those who currently have medical conditions and those who are currently healthy but who also will likely one day need care. Given the lack of universal coverage, insurers attempt to limit their risk and refuse to sell policies to those who may be "high risk" and therefore potentially costly. As a safety net, many states operate high risk pools to give these individuals a chance to purchase insurance.

*The Insurance System Today*

In our current healthcare system, most individuals receive health coverage through their employer, who is able to spread risk across an established pool of all the employees – healthy and sick. Individuals who do not receive coverage through an employer, group or public program are at a significant disadvantage and have few protections. In the individual market, individuals must actively seek out coverage, as well as assume the full cost. This tends to create a pool of applicants who, as compared to the general population, are tend to be less healthy and more likely to seek health care services.

As a result, insurers have a strong financial interest to seek to lower their risk by insuring the healthiest applicants. Insurers do this by denying coverage or charging high premiums to high risk individuals. An additional way insurers limit their risk in the individual market is by limiting benefits, and often denying coverage for pre-existing conditions altogether.

Individuals who do manage to acquire insurance through the individual market can sometimes face losing their coverage after they submit claims. This process when an insurance company retroactively denies a patient coverage is called rescission. After an individual incurs medical claims, the insurer may research the individual's medical history and insurance application in search of evidence of a pre-existing condition or other inaccuracy, whether it was intentional or not, that would allow it to cancel coverage.

*The Role of High Risk Pools in Today's Broken System*

The best way to help the uninsured is through comprehensive reform that would include everyone in the same insurance market. High risk pools are expensive to operate and typically have limited benefits. In fact, many serve a relatively small number of individuals compared to the total population seeking coverage on the individual market. Most high risk pools serve less than 2 percent of the individual market in their state.[iv] With 200,000 enrollees in high-risk pools nationally, however, they play an important role in helping assist some of the uninsured in today's broken system.

Nevertheless, high-risk pools are an important stop-gap measure in today's system. That's why 34 states have established a "high risk" pool to serve as an insurer of last resort for residents who are uninsurable on the individual market and do not have access to employer coverage or other public programs. For many individuals, the high risk pool is the difference between having health insurance and being uninsured – and uninsurable. For example, if an individual with a pre-existing condition managed to acquire and afford coverage in the individual market, the law allows medical services for that condition to be excluded by their insurer for up to a year.

## *Section 2: The Critical Importance of MRMIP and Who it Serves*

Health insurance is a necessary means of enabling people to access the health care they need when they need it so they stay well and are able to live long, productive lives. MRMIP is one of the very few options that provide a source of coverage for those denied insurance in California's individual market. The program is essential. A recent study of MRMIP subscribers showed that without coverage through the pool, 33 percent would have to pay for all their care out-of-pocket and an additional 31 percent would go without care.

*The Importance of Health Insurance*

By any measure, health insurance is how Americans access the health care they need. The uninsured are three times less likely than the insured to access the care they need, most often because they lack a regular source of care.[v] Often, this means they must seek care in the emergency room for usually preventable illnesses. This leads to more expensive care.[vi]

Access to health insurance is most critical for the 40 percent of Californians with chronic illnesses.[vii] Approximately 80 percent of MRMIP subscribers reported having at least one medical condition.[viii] As compared to the general population, MRMIP subscribers have a higher prevalence of chronic diseases such as diabetes, heart disease and cancer. According to survey data, Californians with chronic disease are:

- Less likely to feel confident in managing their illness without a primary care physician.[ix]
- Less likely to see a doctor when they need care.[x]
- Less likely to follow through on a recommended medical test or treatment.[xi]

*MRMIP Provides Care to Diverse Enrollees*

MRMIP is primarily a program for middle-income Californians who truly have no other option than to pay the higher premiums for the limited coverage available through the pool.

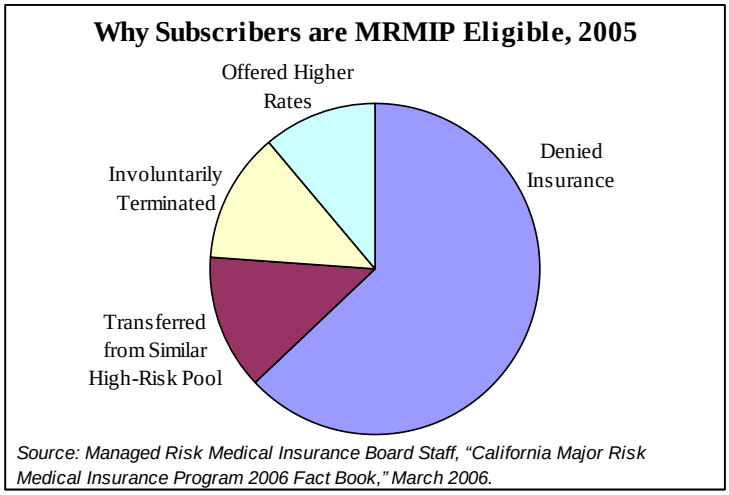
- *Income.* 73 percent of subscribers have incomes above 200 percent of the federal poverty level (FPL), with 31 percent from households with incomes above 500 percent of the FPL.[xii] (In 2008, 200 percent of the FPL for a family of three is $40,480; at 500 percent of the FPL it is $101,200.)
- *Employment:* Of the almost half of MRMIB subscribers who are working, 55 percent describe themselves as self-employed.
- *Gender and Age:* Subscribers are nearly 60 percent female, and the average age is 43.[xiii]
- *Health Status:* Being enrolled in MRMIP means that the individual is "high risk," not necessarily that they are ill. Half of MRMIP subscribers report their health status as less than "very good" or "excellent."[xiv]
- *Chronic Conditions:* Just 20 percent of MRMIP subscribers report having no medical condition.[xv] For those who do have chronic conditions, the most prevalent are cancer, diabetes and mental disorders.[xvi]

*MRMIP Helps Californians From All Walks of Life*

MRMIP truly is the last resort for subscribers. California residents are eligible if they are ineligible for COBRA coverage continuation or Medicare, if they are transferring from another high-risk pool, and they can show that one of the following occurred in the last 12 months:

- Coverage in the individual market was denied by at least one insurer (63 percent of subscribers fall into this category).
- Their coverage was involuntarily terminated (13 percent fall into this category).
- The coverage they were offered was more expensive than that available through the high-risk pool (11 percent fall in this category).

**Chart One: Eligibility Reasons as Reported by MRMIP Subscribers, 2005**



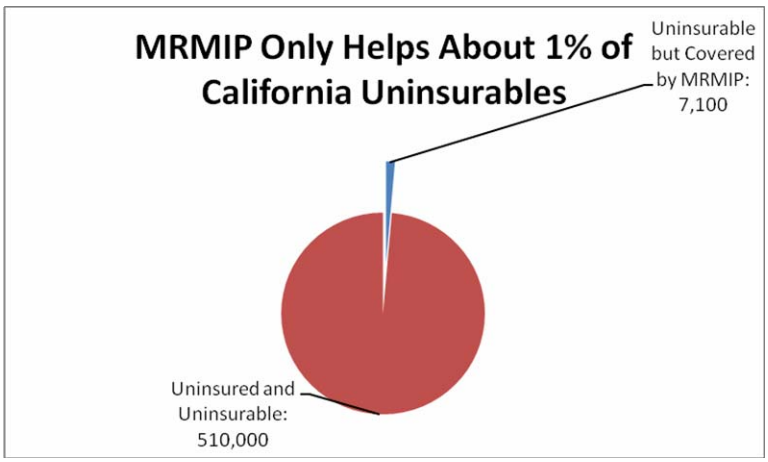

To help promote a better understanding of the program, MRMIP has made several subscriber stories available on their website.[xvii]

## *Section 3: California's Uninsurable Population Will Grow in the Near Future*

The importance of MRMIP and who it serves will only grow in the near future. The long waiting list is most pronounced indicator of the strain on MRMIP. California is one of the few state high-risk pools with enrollment caps and waiting lists, but waiting lists are not uncommon in high risk pools.[xviii] Today, enrollment in MRMIP is capped at 7,100, with a waiting list of more than 750. MRMIP reached the 7,100 level through attrition from its previous enrollment cap of 8,100 in March 2008.

The key criterion for MRMIP eligibility is denial of coverage in the individual market. We estimate that in 2008 between 420,000 and 790,000 uninsurable people live in California. This is based on the estimated coverage denial rate in the individual market, with a midpoint estimate of 600,000. This estimate does not include those who would be eligible for MRMIP because they have been offered coverage at premiums higher than those available through MRMIP, constituting about 11 percent of the MRMIP population. Even with the midpoint estimate, it is clear how inadequate the current MRMIP program is in responding to the current unmet need in California, as shown in Chart Two.

**Chart Two: MRMIP Has Limited Impact on Uninsurable Population**




*Source: Author Calculation*

**Growth in the Number of Uninsurable People: Possibly One Million by 2010**

Unfortunately, this situation is likely to quickly worsen based on three factors. Under a conservative set of assumptions, these three factors could add 140,000 to 270,000 uninsurable people — meaning there could be more than 1 million uninsurable Californians by 2010.

- *Growth in the Individual Market.* California's individual health insurance market grew by more than 20 percent between 2001 and 2005. This is the direct result of more employers dropping coverage. In California, during this same timeframe, the percentage of firms offering coverage fell by four percentage points to 67 percent,[xix] particularly affecting employees with moderate to low incomes.[xx] The individual market may be the only insurance option for many of these working Californians. Projections show that these trends will continue.

  By 2010, it is estimated that there will be 2.7 million Californians in the individual market. Due to this growth, it is estimated that an additional 50,000 to 100,000 uninsurable people will be denied coverage in the market.

- *Proposed Reductions in Public Programs.* As part of the state budget process, a number of proposals would reduce Medi-Cal eligibility, including those affecting working families. One estimate shows that as many as 1,000,000 current Medi-Cal enrollees could lose coverage.[xxi] Even if just one in five of these people attempts to enroll in the individual market, an additional 30,000 to 50,000 people could find that they are uninsurable.

- *Rescission Legislation.* Following a series of high-profile newspaper articles that detailed the rescissions practices of major California insurance companies, the Legislature is currently considering several bills to limit rescissions – the process of canceling insurance once it has been granted. One rescission bill has already become law.[xxii] By making rescissions more difficult, insurers will have a financial incentive to more carefully scrutinize initial insurance applications and deny more Californians insurance at the time of application. As such, the number of uninsurable individuals would increase and the demand for MRMIP products would also increase. While rescission legislation is a critical consumer protection, it could also increase the pressure on MRMIP.

  It can be difficult to model insurer behavior, and therefore we have taken a conservative approach. If the rate of application denials only increases by 10 percent, another 60,000 to 120,000 individuals could find themselves uninsurable in 2010.

MRMIP as currently designed is nowhere near large enough to cover the future projected need. As discussed below, AB 2 is under consideration in the legislature as a step towards stabilizing funding for MRMIP and expanding access to coverage for uninsurable Californians. The bill aims to make the program more effective by addressing areas including benefits, cost sharing, and funding.[xxiii] AB 2 would increase the funding available for MRMIP to serve more people and to eliminate the existing artificial cap on program benefits.

## *Section 4: MRMIP's Limited, and Often Unaffordable, Benefits*

Individuals enrolled in MRMIP have no other insurance options. And in fact, there are clear boundaries to the options offer by MRMIP.

- **Severely Limited Lifetime and Annual Benefits.** MRMIP subscribers receive comprehensive benefit packages with just a $450 deductible, but California's program has a low annual benefit cap of $75,000 and a relatively low lifetime cap of $750,000.[xxiv] California's benefit caps are low relative to other state high-risk pools. For example, just six high-risk pools have annual limits, and MRMIP's level is the lowest.[xxv] These caps were created to bring down the costs of coverage in MRMIP, allowing the program to serve more subscribers. However, it exposes subscribers with serious medical conditions to significant costs if they require care exceeding the cap – even as they are required to make premium payments.

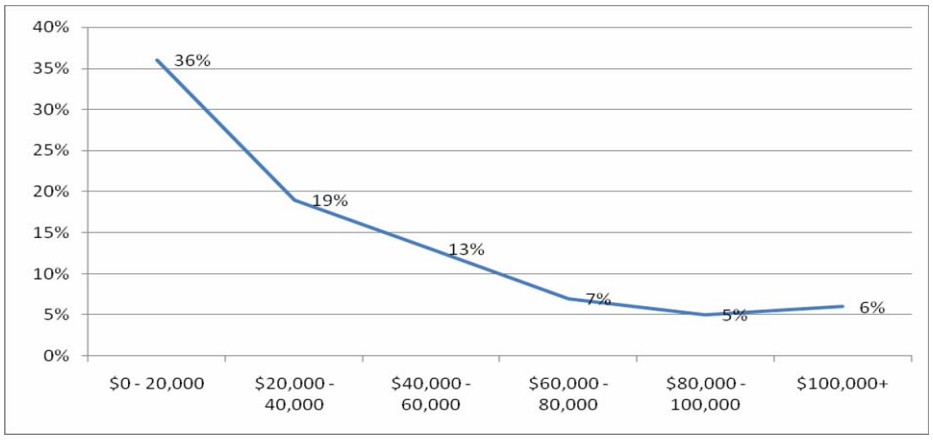
  Experts estimate that the "rock bottom" lifetime cap anyone should have is at least $2 million dollars – more than twice as much as MRMIP's.[xxvi] Few individual market products in California have any annual benefit cap. MRMIP has indicated that the limited benefit package discourages people from enrolling.

- **Limits on Pre-existing Conditions.** Although MRMIP is supposed to serve those with chronic illness, the program imposes a three-month waiting period before any medical services for that pre-existing condition are covered.[xxvii] While the waiting period can be waived for many who had insurance immediately prior to enrolling in MRMIP, it impacts those who need insurance for their conditions most – the currently uninsured.

- **Cost-Sharing is Unaffordable for Many.** MRMIP currently caps insurance premiums in the pool at levels between 125 percent and 137.5 percent of comparable coverage on the individual market. Despite the existing state subsidies, MRMIP coverage is expensive and unaffordable for many individuals. In 2008, one-third of MRMIP subscribers paid more than $8,300 annually for their insurance, with 10 percent paying more than $10,080 a year.[xxviii] Forty-four percent of those disenrolling from the program in one survey identified high costs as their reason.[xxix] A number of high risk pools in other states offer greater subsidies for low-income persons.[xxx]

  As shown in Chart Three, the premiums paid by MRMIP enrollees represent a substantial portion of their income. Sixty percent of MRMIP subscribers earning $60,000 or less spent 13 to 36 percent of their annual income on premiums.[xxxi] Yet, the financial burden on subscribers is understated by the chart, perhaps significantly.
  - Income has grown at about one-third the rate of insurance premium costs since 2005. As a result, the premium as a percentage of income is understated for 2008.
  - This chart does not account for the out-of-pocket costs paid by subscribers, which can be substantial.

**Chart Three: Premiums Paid By MRMIP Subscribers as a Percentage of Income, 2005**




*Source: MRMIP 2006 Fact Book," March 2006.*

## *Section 5: Continuing MRMIP Funding Pressure*

MRMIP is chronically under-funded, and the pressure could increase under the current program. While MRMIP subscriber premium payments covered 66 percent of MRMIP's cost in 2007,[xxxii] a percentage consistent with other states, the program relies on additional government funding to subsidize the entire cost. State funding has often been insufficient to meet the total needs of the program. This has led California to limit the program and institute a waiting list for much of the program's life, which reached 11,000 at its peak. In the future, the financial pressure will continue to increase.

- **Health Care Cost Growth.** Health care costs in the California have increased significantly in the past few decades, reaching $169 billion in 2005, an increase of more than 2.5 fold since 1985, when spending totaled $46 billion.[xxxiii] It is projected nationally the health care costs will continue to grow between 6 and 8 percent nationally. Increases in hospital and physician rates, prescription costs and premium payments in the private market are reflected in MRMIP costs, making it increasingly more expensive to insure individuals.

- **Lack of Federal Funding.** Due to the program structure, MRMIP has not been able to qualify as a "qualified high risk pool" under the State High Risk Pool Funding Extension Act of 2006. MRMIP's annual benefit limit has cost California by making the state ineligible for tens of millions of dollars in federal grants since 2002.[xxxiv]

- **State Budget Pressure and Funding Diversion.** California budget pressures are also pressuring MRMIP – the 2008 budget diverted $18 million of MRMIP reserves to other programs.[xxxv] It is unlikely that California's Legislature will have the funds to make up for that decline, let alone expand the state's supplement for the program to increase the enrollment cap. Another source of uncertainty is that the Proposition 99 Cigarette and Tobacco Surtax Fund, which currently subsidizes approximately $30 billion of MRMIP's costs, is expected to decrease by 3 percent annually due to declining smoking rates.[xxxvi]

## *Section 6: Looking Ahead for MRMIP*

Short of comprehensive health reform to make coverage more affordable and accessible to all, our analysis shows that MRMIP—and those that the program serves—will continue to face increasing and significant challenges. Indeed, without needed improvements, MRMIP enrollment will likely continue to decline as funding declines. This will happen as the number of uninsurable Californians is projected to increase due to falling coverage rates in the employer market, proposed reductions in Medi-Cal enrollment, and proposed changes banning post-claims underwriting.

Currently, the Legislature is considering legislation that would be a good first step in reforming MRMIP. The bill, AB 2, would introduce a new, albeit limited, funding source for the program, as well as strengthen benefits for subscribers. This legislation could serve as a foundation for more comprehensive reforms which could meaningfully increase the number of uninsurable Californians the program could serve, as well as improve the benefits they receive, as follows:

*Eliminating the Benefits Cap.*
AB 2 would eliminate the annual benefits cap and raise the lifetime cap to at least $1 million – slightly closer to what experts estimate is necessary to provide real financial security to subscribers. AB 2 also gives MRMIB greater authority in designing future benefit packages. For example, the Board would be able to offer plans with higher deductibles if they "serve the best interests of subscribers," as well as institute cost-containment initiatives or disease management programs.

*Moving Towards Affordability.*
AB 2 sets the premium cap at 125 percent of private premiums, and provides the Board the ability to set the cap as low as 110 percent for those with incomes at or below 300 percent of the FPL. This change could save MRMIP subscribers hundreds of dollars a month in premiums, thus making the coverage more affordable and accessible. In addition, AB 2 allows the Board to hold subscribers harmless for any premium increases caused by eliminating the annual benefit cap and raising the lifetime cap.
However, as costs and premiums continue to rise, even slightly lowered premium caps in MRMIP will remain unaffordable for many lower- to middle-income Californians.

*Creating More Stable Funding.*
AB 2 takes the first step toward broadening and stabilizing funding for MRMIP. It would require insurers in the individual market to "pay or play:" either sell standard-priced insurance plans to all applicants or pay a one dollar "per covered life" fee to subsidize MRMIP. AB 2 also would include an annual $40 million Proposition 99 appropriation in the MRMIP statute, ensuring those funds cannot be diverted from the program. Altering MRMIP's program structure so it does not rely only on the already diminishing Proposition 99 funds and adds insurance-based assessments may help create more stability for the program, as well as improve incentives to keep individuals in the individual market.

Most states fund their pools through assessments levied on premiums in both the group and individual markets.[xxxvii] This provides a broader, steadier source of funding than even the proposed AB 2 reforms, allowing many states to serve all eligible applicants. For example, both Arkansas and Oklahoma allow for capping enrollment, but they have had stable funding through an assessment on insurance carriers to keep enrollment open.[xxxviii] Broadening funding through a "pay or play" assessment on both group and individual market policies would also help open MRMIP earn future federal funding (if it becomes available) by making dollars available to improve the

program as a "qualified high risk pool" under the State High Risk Pool Funding Extension Act of 2006.

*Increasing the Number of Californians Served By MRMIP*
Reform efforts, such as those proposed in AB 2, could strengthen MRMIP and allow it to serve a much greater number of subscribers. While AB 2 in its current form will make more funding available to the program, it will not cover more than a small fraction of the uninsurable population.

## *Conclusion*

Though aware of spiraling health costs and the need for health insurance, most Californians do not understand the complexity or challenges of the insurance market place—or MRMIP's role in it. Also, most do not understand the barriers that can exist to buying insurance until it is too late. Unfortunately, a growing number of Californians will find themselves in just that position in the not-too-distant future.

It is conservatively estimated that, this year, there are more than 600,000 uninsurable Californians—those who are unable to obtain or afford health insurance in the individual market, and lack access to employer or public insurance. An important part of the state's health care safety net for the uninsurable, California's high risk pool in not capable of meeting current, or future, needs. There are three key reasons why MRMIP needs reform:

- *Growing Need:* Declining employer insurance, reduced spending in public programs, and legislation reforming the individual market may all contribute to increasing the large pool of uninsurable Californians, many of whom are middle-class and self-employed. In a few years, we estimate that the 600,000 currently uninsurable Californians could increase to more than one million.

- *Limited, Often Unaffordable Benefits:* MRMIP subscribers can pay a large percentage of their after-tax income on benefits, which are currently capped at low levels that do not offer sufficient financial protections for individuals with serious chronic diseases.

- *Rising Health Care Costs/Continuing Funding Pressure:* The program is chronically underfunded and is facing increasing budget pressures as health costs rise, state tax revenues fall, and as MRMIP fails to earn available federal funds.

The state is considering important reform legislation, AB 2, which is a good first step toward the reforms needed to stabilize MRMIP and allow it to serve greater numbers of uninsurable Californians.

The state should reconsider changing its funding structure to more closely resemble that of other state pools, which are able to reliably serve the populations in need. A "pay or play" assessment for all insurance carriers in the individual and group market is one option. Short of comprehensive reform, assessing insurance companies or insurance policies would create a rational, dedicated stream of funding, and help spread the risk for paying to cover all Californians. From this analysis, it is clear that with appropriate reforms, MRMIP could offer additional support to a significant number of additional uninsurable Californians – support that is desperately needed.

## *Methodology and Assumptions*

*Calculation of Current Uninsurables*
This is based on a projected number of non-elderly persons in the current market using 2005 California Health Interview Survey data, showing 2 million persons in the individual market. That number was then trended forward at 5.8 percent, based on the average growth in the individual market between 2001 and 2005 in the CHIS data set, thereby giving a 2008 estimate of 2.4 million, reflecting that there is only eight months of growth for 2008.

By taking the number in the individual market, it is possible to estimate the number of uninsurable Californians. This is done by calculating the number of individual market applications, and then assuming a certain percentage are denied. The range is based on a low estimate that 15 percent of applications are denied, which is an estimate by the trade group, America's Health Insurance Plans.[xxxix] Professor Karen Pollitz, in a brief for the Commonwealth Fund, suggested that 25 percent of all applications are found uninsurable.[xl] This range seems appropriate, with MRMIP's actuaries stating that 20 percent of all individual market applications are likely denied. As an example, the formula used for the high estimate is: (2.4 million/(1-.25))*.25, where the total number of applicants is 3.2 million and the total uninsurable are found to be 800,000.

This is an underestimate. The estimate does not include those who would be eligible for MRMIP because they have been offered coverage at premiums higher than those available through MRMIP, constituting about 11 percent of the MRMIP population. However, the estimate likely includes those from the two other MRMIP eligibility categories — those who have transferred from another high risk pool and those whose coverage has been involuntarily terminated.

*Growth in Uninsurables*
Enrollment growth is based on the same methodology as used to calculate the current number of uninsurable, with trending occurring through 2010 there could be an additional 51,000 to 96,000 uninsurable persons.

*Growth in Uninsurables Based on Medi-Cal Enrollment Reductions*
The estimate is based on taking the estimated number of those losing Medi-Cal coverage and assuming 20 percent will seek coverage on the individual market. The same methodology was used

to calculate the current number of uninsurable individuals, giving a range of 30,000 to 50,000 new uninsurable persons. This is a conservative estimate as the Medi-Cal population has been found to have a higher rate of pre-existing conditions than the general population.

*Insurer Response to Rescission Legislation*
This methodology is based on using the methodology given to calculate the current rate of uninsurable. For this calculation, based on 2010, the AHIP estimated denial rate was increased by 10 percent, to 16.5 percent (for a net increase of 57,000) and the Commonwealth Fund estimated denial rate was increased by 10 percent to 27.5 percent (for a net increase of 124,000).

## About the Authors

Peter Harbage is the President of Harbage Consulting LLC, a Sacramento-based health care consultancy. Hilary Haycock is a director at the same firm. Harbage Consulting has extensive experience on California health policy. The Managed Risk Medical Insurance Board released in 2007 Harbage Consulting's most recent work on California's high risk pool, "Major Risk Medical Insurance Program: Benefit Design Review." Sara Arnquist, a contractor to Harbage Consulting LLC, contributed to this report.

## *Endnotes*

[i] Authors' analysis of the California Health Interview Survey, 2005 (Available at http://www.chis.ucla.edu/). 2008 estimated using annual growth rate from 2001 to 2005.
[ii] Lesley Cummings, "California's High Risk Health Insurance Pool: Major Risk Medical Insurance Program," Legislative Briefing, June 26, 2008.
[iii] Based on using 2005 survey data from MRMIP asking subscribers for their average premium. MRMIP does not have actual average premium data. Premiums were then grown forward using the Centers for Medicare and Medicaid Services' National Health Expenditure Data projected growth rate for private health insurance.
[iv] Bruce Abbe, "State Risk Pools Under the Gun," *Health Care News*, The Heartland Institute, February 1, 2002. http://www.heartland.org/Article.cfm?artId=10380
[v] Kaiser Commission on Medicaid and the Uninsured, "The Uninsured: A Primer: Key Facts About Americans Without Health Insurance," Kaiser Commission on Medicaid and the Uninsured, January 2006. http://www.kff.org/uninsured/upload/7451.pdf
[vi] Hadley J. 2003. "Sicker and Poorer – The Consequences of Being Uninsured." *MCRR*. 60(2): 3-76.
[vii] California HealthCare Foundation, "Living with Chronic Illness: Californians' Perspectives on Cost and Coordination of Care," California HealthCare Foundation, April 2008. http://www.chcf.org/documents/chronicdisease/ChronicCarePerspectives08.pdf
[viii] Managed Risk Medical Insurance Board Staff, "California Major Risk Medical Insurance Program 2006 Fact Book," March 2006.
[ix] California HealthCare Foundation, "Living with Chronic Illness: Californians' Perspectives on Cost and Coordination of Care," California HealthCare Foundation, April 2008. http://www.chcf.org/documents/chronicdisease/ChronicCarePerspectives08.pdf

[x] *Ibid.*
[xi] *Ibid.*
[xii] Managed Risk Medical Insurance Board Staff, "California Major Risk Medical Insurance Program 2006 Fact Book," March 2006. http://www.mrmib.ca.gov/MRMIB/MRMIPFBV3_23_06.pdf
[xiii] *Ibid.*
[xiv] *Ibid.*
[xv] *Ibid.*
[xvi] *Ibid.*
[xvii] Please see: http://www.mrmib.ca.gov/MRMIB/MRMIP_subscribers.html .
[xviii] Florida pool is closed indefinitely to new enrollees due to lack of funds, National Association of State Comprehensive Health Insurance Plans.
[xix] California HealthCare Foundation, "California Employer Health Benefits Survey, 2007," California HealthCare Foundation, December 2007. http://www.chcf.org/topics/healthinsurance/index.cfm?itemID=133543. Also see California Health Interview Survey, "Type of health insurance coverage – all ages." http://www.chis.ucla.edu.
[xx]E. Richard Brown, Ninez Ponce, and Shana Alex Lavarreda, "Job-Based Insurance Declines for Moderate- and Low-Income Workers," University of California, Los Angeles Center for Health Policy Research, July 2007. Available at http://www.healthpolicy.ucla.edu/pubs/publication.asp?pubID=228.
[xxi] Health Access Analysis, "Not Just a One-Time Cut*:* Permanent Policy Changes in Governor's Budget Would Deny Coverage to More Than One Million Californians," Health Access, June 2008. Available at: http://www.health-access.org/preserving/Docs/HACoverageImpactReporto6-25Final.pdf.
[xxii] Lisa Girion, "Schwarzenegger signs ban on health insurers' rescission reward practice," *Los Angeles Times*, July 23, 2008. Available at: http://www.latimes.com/news/local/politics/cal/la-fi-hmolaw23-2008jul23,0,4134624.story
[xxiii] Unless otherwise footnoted, all information in this section was based on: Managed Risk Medical Insurance Board, "Revised Bill Analysis: AB 2 (Dymally)," March 2008.
[xxiv] Harbage Consulting, "Major Risk Medical Insurance Program: Benefit Design Review," Managed Risk Medical Insurance Board, July 2007.
[xxv] Kaiser State Health Facts, "High Risk Pool Benefit Maximum," Kaiser Family Foundation. http://www.statehealthfacts.org/comparetable.jsp?ind=607&cat=7
[xxvi] Albert Crenshaw, "Getting Coverage if Your Employer Doesn't Offer It," *Washington Post*, March 16, 2008.
[xxvii] California Major Risk Medical Insurance Program Handbook, 2008, http://www.mrmib.ca.gov/MRMIB/MRMIPBRO.pdf.
[xxviii] Based on using 2005 survey data from MRMIP asking subscribers for their average premium. MRMIP does not have actual average premium data. Premiums were then grown forward using the Centers for Medicare and Medicaid Services' National Health Expenditure Data projected growth rate for private health insurance.
[xxix] Managed Risk Medical Insurance Board Staff, "California Major Risk Medical Insurance Program 2006 Fact Book," March 2006. Survey data from 2003.
[xxx] Lynn Gruber, "State High Risk Pools Hold Value in Era of State Health Reform," National Association of State High Risk Pools, September 2007. Available at: http://www.naschip.org/2006/State%20Risk%20Pools'%20Value%209-28-07.pdf
[xxxi] Managed Risk Medical Insurance Board Staff, "California Major Risk Medical Insurance Program 2006 Fact Book," March 2006.
[xxxii] Lesley Cummings, "California's High Risk Health Insurance Pool: Major Risk Medical Insurance Program," Legislative Briefing, June 26, 2008.
[xxxiii] Author calculation based on California HealthCare Foundation, "Health Care Costs 101: California Addendum," 2006. Available at http://www.chcf.org/documents/insurance/HCCostsCAAddend06.pdf.
[xxxiv] Managed Risk Medical Insurance Board, "Revised Bill Analysis: AB 2 (Dymally)," March 2008.
[xxxv] Lesley Cummings, "California's High Risk Health Insurance Pool: Major Risk Medical Insurance Program," Legislative Briefing, June 26, 2008.

[xxxvi] *Ibid.*
[xxxvii] Deborah Chollet, "Expanding Individual Health Insurance Coverage: Are High risk Pools The Answer?" *Health Affairs*, October 23, 2002.
[xxxviii] Managed Risk Medical Insurance Board Staff, "California Major Risk Medical Insurance Program 2006 Fact Book," March 2006.
[xxxix] AHIP Center for Policy Research, "Individual Health Insurance 2006-2007," December 2007.
[xl] L. Tooman, "Real People, Real Coverage," Council for Affordable Health Insurance, Issues and Answers No. 103, May 2002. Available at http://www.cahi.org *as found in* Karen Pollitz and Eliza Bangit, "Federal Aid to State High risk Pools: Promoting Health Insurance Coverage or Providing Fiscal Relief?" Commonwealth Fund Issue Brief, November 2005.